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Regional integration: Lessons from Asia and Europe

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Abstract

As Africa pursues regional integration due to increasing globalisation, the European Union is an example that Africa could learn from. The EU has been a forerunner in the movement of regional integration since the creation of the European Coal and steel Community (ECSC) in 1952and the establishment of the European Economic Community (EEC) in 1957 and this has since invigorated the attempts by other parts of the world to follow suit (Choi, 2003). In the EU members have opted for a single currency, a central bank and free movement of factors of production for all member countries. Inaddition, Europe has shown that there is also need for a self-regulating supranational authority and mandatory regional institutions for example a single central bank, with a clear focus and realistic transition structure towards integration. However, the EU has faced its own challenges of relatively weak and unstable economies especially with the financial crisis which exposed the vulnerability of EU economies. Also, Asia provides valuable lessons on trade that Africa can apply in pursuing regional integration. Asian regional trade has not developed significantly until the financial crisis which forced member countries to trade among themselves in compensation of lessening trade with European and American markets. The existence of a number of regional groupings in Asia unlike in the EU could provide lessons for integration in Africa since Africa has a similar set up. Hence, integrating national policies with regional policies should be valuable to driving greater integration Africa based on regional political and economic institutions.

Lessons from Europe

Southern Africa is not alone in seeking regional integration due to increasing globalisation and the advent of the World Trade Organization (WTO) because other parts of the world have embraced the concept. The European Union founded in 1957 by the Treaty of Rome is an example and is perceived to be a model of regional integration and the best example showing regional security and governance in Europe (Magen, 2006). Europe's success story has showed that with regional integration comes a successful growth strategy and its spill over effects into other regions stimulated previously unorganised to the risk of becoming victims of negative externalities resulting from being alienated from regional trade arrangements leading to 'trade diversion effect'(Choi, 2003) This is due to the fact that in the EU some members have opted for a single currency, there is a central bank and free movement of factors of production for all member countries. The expansion of this regional grouping has been largely aided by the use of its membership to integrate neighbours in Central and Eastern Europe (Song, 2010) and the approach is used on bilateral as well as regional characters. However, lessons learnt from Europe show that for macroeconomic convergence to work there must be key determinants in place like building consensus in developing the convergence criteria and its implementation modalities, as well as commitment to established responsibilities. Also, equitable and transparent mechanisms for determining as well as allocating the costs, benefits and corrective measures that integration entails.

There are also lessons to be learnt from the European Union in terms of decision making. Europe's experience has shown the need for a suitable, self-regulating supranational authority and mandatory regional institutions for example a single central bank, with a clear focus and realistic transition structure towards integration. The supranational authority should be adequately empowered with rules for enforcing and penalising any errant behaviour by non-compliant members. Thus, the existence of the Court of Justice in monitoring implementation, European Commission, European Council and European Parliament has been decisive in integrating the European Union market thus far.It is important to note that the powers of these institutions have been evolving because there has never been a static line between powers of these institutions and national government powers nor a fixed point beyond which regional integration could not go without national governments to pool their decision-making authority. Additionally, there must be prioritisation in design of policy objectives, strategies and establishing appropriate institutions and assigning mandates at the national and regional levels.

Another obvious lesson from European integration lies in the importance of gradualism or otherwise known as sequencing because European integration has been a continuous process during which both its geographical spread and depth have gradually expanded over the years. The integration process can be divided broadly into three distinct stages. The first stage was the creation of the customs union in 1968 and European integration mainly took the form of a free trade arrangement with focus on promoting intra-regional trade in goods and some services. Then followed establishment of a single market in 1993, whereby integration was extended to include the free movement of money and people. Then the third stage was introduction of a common currency with the adoption of the euro in 1999. Hence, these distinct stages by the European experience offer three possible models of regional integration with different depths which are a free trade arrangement, a single market, and a common currency area.

From the EU experience, we see the importance of historical reconciliation for developing a necessary political will for cooperation and hence integration. The historical reconciliation between France and Germany was achieved by years of sustained political effort from the leaders of these countries. (Urwin, 2014) Only after historical reconciliation can countries proceed gradually along the various steps required to create regional community such as a free trade area, customs union, a single market, a single currency, a common passport area and common foreign policy.

Moreover, a consensus approach combined with solidarity and tolerance is important. The EU approach is based on not isolating any member state if they have major problems (eg Greece is the most recent crisis), hesitance to move forward with policies until the vast majority of member states are ready and a willingness to provide significant financial transfers to help poorer member states are ready to catch up with the norm. The EU policy has successfully promoted economic development in the less developed economies for example Spain and Portugal (Wang, 2013).

Also, the EU has used its European Neighbourhood Policy to integrate neighbours into the regional group promoting stable democracies and reform. It seeks to diffuse the idea of regional integration as a way of achieving peace, social welfare, economic development and exportation of regionalism by using its relations through political dialogue as well as creation of joint institutions for consultations and decision making in its neighbourhood and beyond. It persuades the third country to adopt EU's idea on regional integration through external development assistance which can either be technical or financial assistance (Borzel et al., 2008) Hence, in addition to influencing the direct projects and programmes, it also follows the ideas and mindsets of local elites (De Lombaerde et al., 2008)

Generally, integration is a difficult process and there will invariably be setbacks and crises. Nevertheless, in the EU case, pessimists are nearly usually proven wrong. The EU has an excellent record of recovering from crises and moving ahead even stronger than before due to firm political will (Cameron, 2010). The history of integration in Europe shows that creation of blueprints and taking another step for integration even in the worst of situations is very important in making continued progress.The resounding lesson of the EU model, then, is the necessity of genuine investment by member states in the goal of regional integration. While not always politically expedient, national governments would be wise to put the long-term goal of cooperation above more immediate domestic priorities. More importantly, if integration is to succeed, governments and publics should believe that it is in their vital interest. It is also important to involve the private sector through supranational company law. Without such commitment, regional groupings will crumble at the first bump in the long road to integration.

For regional integration's success, expenditure programs are an essential effort to support the integration process. Hence, the EU has invested in the Common Agricultural Policy to support farmers and a similar arrangement would be essential for Africa where a large share of employment lies in the agricultural sector. Also, the EU has designed Structural and Regional Funds to address the concerns of the region's low income countries. In this regard, while trying to address the concerns that less developed regions may be left behind in the process if not addressed, it is important to decide which regions should be assisted and in which areas that is whether in telecommunications, transportation, educational structures or any other.

Also, there is need for political will to share sovereignty and construct strong legally based common institutions to oversee the integration project. Although some literature such as Lorenz (2012) argues that policy-makers in the SADC region have, over time, increasingly adopted EU-style institutional arrangements even though alternative institutional models are more suitable to their preferences for 'pragmatic', sovereignty-preserving cooperation are available at various critical junctures of institutional evolution.

While the EU has encountered fewer problems of regional disparities for economic and monetary integration, currently, it faces challenges of relatively weak and unstable economies especially with the financial crisis which exposed the vulnerability of EU economies (Eichengreen, 2012**)**. The Greece's economic budget deficit has resulted in weakening of EU's economic standing. Other countries that have been affected and requested international bailout from the European Central Bank (ECB) are Portugal, Spain, Ireland and Cyprus making them a total of five.

Lessons from Asia

It can be noted that Africa has the largest number of regional groupings followed by Asia. Within Asia, the regional groupings are quite a number for example Association of Southeast Asian Nations (ASEAN), Asia Pacific Trade Agreement (APTA) and Asia-Pacific Economic Cooperation (APEC) which is integration with the pacific and SAARC (South Asian Association for Regional

Cooperation), Economic Cooperation Organization (ECO), established in 1985, consisting of ten member countries of the central and western Asia which are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan (Wang, 2013). ASEAN for example has its own regional characteristics such as sovereignty led, compromised governance, non-interference, informality in consultation and consensus which are different from the above mentioned EU's example. However, ASEAN has increasingly learnt to build formal institutions from the EU to increase its international recognition (Bo"rzel and Risse, 2009).

In terms of intra regional trade volumes, compared to the European Union, the Asian regional trade has been trailing behind until 2008 as shown in Table 1 because of the financial crisis which required member countries to take the initiative of trading among themselves in compensation of lessening trade with European and American markets leading to strikingly large intra-trade volumes. Also, in recent years while global trade with Asia has doubled since 2000, intra-regional trade has tripled because countries within economic-trade regimes such as ASEAN in Southeast Asia increased trade levels as well as commodity exchange among themselves hence reducing inflation and tariff barriers associated with foreign markets resulting in growing prosperity.

Table 1: Intra-Asian Trade

Regional group			**Export value ($ millions)**			
	1995	2000	2005	2010	2011	2012
APTA	21 988	37 785	128 116	278 555	325 535	326 030
ASEAN	80 081	98 189	165 406	262 987	310 488	325 513
ECO	4 908	4 693	14 565	32 945	42 740	48 430
GCC	7 041	8 340	19 423	34 523	47 015	51 191
SAARC	2 436	2 935	9 112	16 633	20 209	20 291

Source: UNCTADStat, 2013

As for Asia, it is such a complex entity and geological area without the common legal systems and governance standards. This complexity goes some way towards explaining the nature of its regionalisation. Decisions are made under the procedure of consultation and consensus, without any independent dispute settlement body or parliamentary assembly or a representation of societal interests. The importance of monitoring implementation through a court of justice is therefore essential (Wang, 2013). Also, Asian countries have low levels of collective cultural identity and common political mission (Choi, 2003 and Crone, 1993), compared to the European experience. The weak formal institutions due to reluctance to institutionalisation restricts Asia from providing a coordinated regional response to global requirements in time of crisis and some of these characteristics are somewhat similar to Africa's scenario.

The new regionalism in East Asia indicates that the states use economic instruments to pursue political objectives. In East Asia, economic and financial cooperation is largely shaped and boosted by political intensions of states. Since governments are largely worried about loss of behavioural autonomy and national sovereignty, they have constrained the economic cooperation to a shallow level (Ravenhi, 2009). They have chosen a regional integration which is less institutionally designed and more bilateral and inter-governmental. Unlike Europe, the institutions are lean and have limited supranational powers. Moreover, East Asian integration relies on a so-called noodle bowl of bilateral Free Trade Agreements that are too cumbersome making them difficult to be utilized by the private sector who are important stakeholders in the integration process (Langhammer, 2007). In overcoming this hurdle, there might be need to involve the private sector through supranational company law.

The lack of nations or leaders that drive the integration process has slackened the growth of the Asian integration. This is unlike the European scenario where we see the leadership generated by the Franco-German axis. Hence, despite many problems, Paris and Berlin have been and still remain the driving force behind integration in Europe. Also, visionary politicians, such as Robert Schuman of France and Konrad Adenauer of Germany, who envisaged a new form of politics based on the supranational "community method" rather than the traditional balance-of-power model. Also, support from the United States was also crucial in the early years (Cameron, 2010).

On a positive note, Asian countries complement each other in terms of providing labour, technologies and different components needed in the manufacturing of products. Competitive and comparative advantages among Asian countries enable them to promote economic integration through trade and investments. Such approach enabled the shift from a more vertical economic model centered on economic monopoly to a more horizontal model with more diverse economic actors and economic interests and influence. It includes intra-regional trade and capital flows. However, greater regional trade has been possible with the reduction of tariffs between countries to enable movement of goods, labour and capital within Asia.

Also, the Asian phenomenon of South-south trade expansion has increased notably, which has been greatly driven by their economic growth, success in production sharing schemes, as well as rising demand for natural resources from other developing regions.

However, it can be noted that in Asia, China plays a significant role in intra -Asian trade by importing from other Asian countries. However, its growing power in economic and military area causes concerns with its neighbouring countries regarding hegemonic China (Choi, 2003). This has led to contrasts with its broader political ambitions within the region resulting in political and diplomatic tensions as well as economic consequences on Asia’s integration.

Africa’s trade

Africa is still narrowly based on production and export of unprocessed agricultural products, minerals and crude oil. Due to relatively low productivity and technology, African economies have low competitiveness in global markets apart from crude extractive products. The low productivity of traditional agriculture and the informal activities continue to absorb more than 80% of the labour force as previously alluded to, hence growth remains vulnerable to external shocks. Thus, the continent still plays a marginal role in the global market, accounting for barely 3% of world trade. Moreover, costly and cumbersome border procedures, inadequate infrastructure and administrative burdens often raise trade-related transaction costs within Africa to unsustainable levels, creating a further barrier to intra-African trade.

In Africa’s regional integration process with the trade values shown in Table 2, it could learn from Asia since there are also different Regional Economic Communities in Asia compared to the European Union, which is a single trading bloc and in the Asian scenario, there is no overlapping of membership for its member countries. Hence, integrating national policies with regional policies should be key to driving greater integration in Africa based on regional political and economic institutions. This could lead to utilising the benefits that lie in intra-regional trade as exhibited in the Asian scenario.

Table 2: Intra-Africa Trade

		Regional group		Export value ($ millions)		
	1995	2000	2005	2010	2011	2012
CEMAC	97	101	261	830	755	709
CEPGL	5	4	24	51	86	152
COMESA	1 363	1 404	3 399	8 876	9 332	9 297
EAC	539	489	1 133	2 222	2 595	3 086
ECCAS	135	157	350	1 394	1 062	990
ECOWAS	2 294	2 711	6 011	9 783	10 636	12 530
MRU	103	111	238	164	338	283
SADC	6 622	7 249	11 231	22 345	25 792	24 337
UMA	1 232	1 095	1 916	3 739	4 105	5 710
WAEMU	1 055	976	1 717	2 534	2 646	3 124

Source: UNCTADStat, 2013

However, Africa is making strides in achieving regional integration as shown by the launching of the COMESA-EAC-SADC Tripartite Free Trade Area in Egypt in June 2015. The TFTA of 26 member countries comprises the three largest regional economic communities (RECs) in Africa that is the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern African Development Community (SADC) with a combined population of 632 million people which is 57% of Africa's population; and with a total Gross Domestic Product (GDP) of USD$ 1.3 Trillion (2014) contributing 58% of Africa's GDP. The deal will come into force once ratification is attained by two-thirds of the 26 member states. The establishment of a TFTA will bolster intra-regional trade by creating a wider market, increase investment flows, enhance competitiveness and encourage regional infrastructure development as well as pioneer the integration of the African continent. The tripartite initiative is a decisive step to achieve the African vision of establishing the African Economic Community.

In signing the agreement the countries agreed to the developmental integration approach built on three pillars which are industrial development to enhance competitiveness and address supply and productive capacity constraints, infrastructure development for facilitation and enhanced connectivity, communication and movement of goods and persons thus reducing the cost of doing business; and market integration adopted in the Second Tripartite Summit

Concluding remarks

In conclusion, besides having to come up with solutions such as technological upgrading, reduction of infrastructure gaps, diversification of economic structure that is of production and exports, the improvement of the productivity of all resources, including labour as well as enhancement of export competitiveness other challenges for African leaders as well as policy makers as discussed above from the lessons from Europe lie in the level at which governments are willing to compromise sovereignty and political autonomy for the sake of regional cooperation. The second is creation of mechanisms through which the "losers" and the "weak" within the region can be compensated. The third is the clear definition of which members can benefit from such mechanisms. These are the elements which are useful in propelling progress in furthering regional cooperation and institution building because they remove resistance and obstacles against functional spillovers.

In terms of financial integration in Africa, the challenges are undoubtedly daunting. First, the European Union implemented the integration of financial systems with the strong guidance and supervision of a supranational authority, which Africa does not have. The existence of the European Commission, European Parliament and Court of Justice has been decisive in integrating the European Union market so far but Africa does not have adequate institutional structure that can help accelerate integration in the continent. In addition, the “carrot and stick” system worked to enforce the necessary liberalization in the European Union, with the “stick” being all the sacrifices in adjusting domestic markets hence transitioning to a more competitive financial market and the “carrot” pertaining to all the benefits of belonging to the European Union. The benefits were strong enough to help accept the dismantling of protectionist barriers. In Africa, these benefits are presumed to be present but their magnitude is yet unclear. It remains to be seen if they are going to be sufficient to excite the region’s financial sector.

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